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SEATTLE, WASHINGTON 98104-16

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of

No. G 02-43

The Financial Examination of PEMCO MUTUAL INSURANCE COMPANY

FINDINGS, CONCLUSIONS, AND ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **PEMCO MUTUAL INSURANCE COMPANY** (the Company) as of December 31, 1997 and 1998, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a mutual insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on September 24, 2002. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 23 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **PEMCO MUTUAL INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented the Instructions prior to the date of this order. The Instructions in the report are an appropriate response to the matters found in the examination.

ORDER

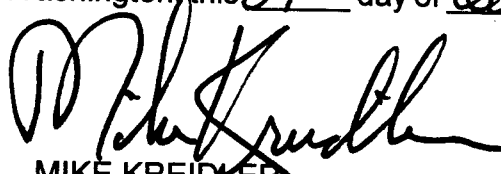
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, this being the Instructions contained in the examination report on page 2.

1. The Company is ordered to comply with WAC 284-02-080 and file all amendments to its bylaws with the insurance commissioner. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC for the completion of the annual statement. The Company is further ordered to comply with RCW 48.05.250 which requires the Company to file with the insurance commissioner a true annual statement of its financial condition, transactions, and affairs. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.12.010 and report as allowable assets only those assets that belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer's name. Instruction 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.13.340 and 350 that require Board of Directors' written approval in permanent form. Instruction 4, Examination Report, page 2.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 29th day of October, 2002.


MIKE KREIDLER
Insurance Commissioner



PEMCO Insurance Companies

Part of PEMCO Financial Services: EvergreenBank, PEMCO Corporation, PEMCO Insurance, Washington School Employees Credit Union

Stan W. McNaughton, President

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SEP 24 2002

September 23, 2002

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

Re: PEMCO Mutual Insurance Company
Report of Examination as of December 31, 1997 and 1998

Dear Deputy Commissioner Odiorne:

We have received the draft of the referenced report of examination of PEMCO Mutual Insurance Company (the "Company") and have completed our review of the material presented. Overall, we are pleased with the report and look forward to its formal adoption.

At your request, we offer the following comments and ask that they be included with the final examination report.

Regarding the section entitled "INSTRUCTIONS" found at page 2 of the report:

1. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-02-080** and file all amendments to its bylaws with the insurance commissioner.

RESPONSE:

During the examination, all of the Company's amended bylaws filings were brought current. Any future amendments to the bylaws will be filed with the insurance commissioner as required.

2. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** which requires adherence to the appropriate Annual Statement instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC for the completion of the annual statement. **RCW 48.05.250** requires the Company to file with the insurance commissioner a true annual statement of its financial condition, transactions, and affairs.

RESPONSE:

The following changes have been made: (a) the general interrogatory question, "Has any change been made during the year of this statement in the charter, bylaws, articles

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Claims: (206) 628-7928 in Seattle area • 1-800-552-7440 toll free

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of incorporation, or deed of settlement of the company?" has been answered correctly; (b) Schedule F has been correctly completed in reference to "Unauthorized Reinsurers"; and (c) Schedule D includes the proper Securities Valuation Office (SVO) rating as required by the Accounting Practices and Procedures Manual.

3. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.12.010** and report as allowable assets only those assets that belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer's name.

RESPONSE:

As described in the report of examination, bonds being held by U.S. Bank were inadvertently listed as owned by another affiliated entity in the PEMCO group. The special escrow agreement was corrected on July 1, 2000 to reflect the Company's ownership of the bonds and to support the previous accounting for these bonds as admitted assets.

4. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.13.340 and 350** that require Board of Directors' written authorization in permanent form for investments.

RESPONSE:

Failure to record board approval of the 1998 sale of vacant land located in Pierce County has been noted and will be addressed at an upcoming meeting of the board. In the future, such investments will be presented to the board for written authorization.

Finally, we note that EvergreenBank is listed on the Organizational Chart at page 4 under the heading "Companies under Common Management." EvergreenBank is part of an alliance of companies. As reflected in the Organizational Chart, not all of the allied companies are "affiliates" as defined by law. EvergreenBank correctly appears as a company outside the PEMCO holding company system because it is not an affiliate within that group.

To avoid any confusion, we think it appropriate to delete reference to the bank as being "under common management." There were relatively few overlapping directors between the Company and the bank during the period under examination. Moreover, for some time now the Company and the bank (and the bank's parent) have had only **one** director in common, out of nine positions on each of their boards.

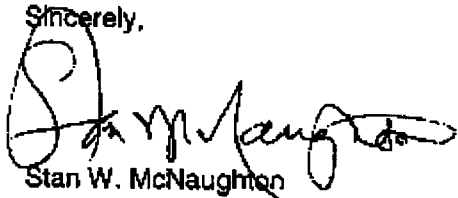
If the commissioner decides to retain references to the bank as being under common management during the period under review, we think it worth noting at page 12 under "SUBSEQUENT EVENTS" that the bank is not now under common management. The following could be added after the update regarding PEMCO Insurance Agency:

There were also changes outside the holding company system.

EvergreenBank: EvergreenBank is today a wholly-owned subsidiary of EvergreenBancorp, Inc., a publicly traded bank holding company formed in 2001. The bank and its parent have only one director in common with the Company. EvergreenBank and its parent are not under common management with the Company.

If you have any questions regarding these or other matters addressed in the report of examination for the period ended December 31, 1997 and 1998, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Stan W. McNaughton", with a stylized flourish at the end.

Stan W. McNaughton
President & CEO
PEMCO Mutual Insurance Company